

Message Text

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SUMMARY: FROM OUR VANTAGE POINT THE SECRETARIAT'S DESCRIPTION OF DENMARK'S RECENT ECONOMIC PAST, ITS PROGNOSIS FOR THE IMMEDIATE FUTURE, AND ITS CONCLUSIONS ARE ALL ON TARGET. THE GOVERNMENT, ALREADY RESOLVED TO TAKE STRONG MEASURES, HAS BEEN FORTIFIED IN THIS RESPECT BY THE JUST COMPLETED PARLIAMENTARY ELECTIONS. AN OECD REVIEW WHICH CLEARLY EXPOSES THE SERIOUSNESS OF THE DANISH SITUATION WILL HELP THE GOVERNMENT IN PERSUADING ANY DOUBTERS ABOUT THE NEED FOR EFFECTIVE REMEDIES. THE QUESTIONS YOU PROPOSE TO ASK ARE REASONABLE AND SUFFICIENTLY COMPREHENSIVE, AND WE SEE NO NEED FOR PARTICIPATION BY AN EMBASSY REPRESENTATIVE IN THE REVIEW PROCESS. WE DIFFER FROM THE SECRETARIAT'S EXPOSITION ONLY SLIGHTLY IN THAT WE ARE A BIT MORE OPTIMISTIC IN A FEW INSTANCES. THESE POINTS ARE COVERED BELOW ALONG WITH BACKGROUND COMMENTS. END SUMMARY

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1. WE HAVE NO QUARREL WITH THE SECRETARIAT'S DESCRIPTION OF RECENT ECONOMIC DEVELOPMENTS IN DENMARK. IT COINCIDES CLOSELY WITH OUR OWN ANALYSIS (E.G., REF B) AND THAT OF ALMOST ALL DANISH ECONOMY WATCHERS.

2. AS FOR THE OUTLOOK FOR THE COMING YEAR, WE ARE INCLINED TO BELIEVE THAT THE GOVERNMENT WILL BE IN A BETTER POSITION TO

IMPLEMENT THE AUSTERITY MEASURES THAT GO UNDER THE NAME OF "AUGUST COMPROMISE" (WAGE RESTRAINT, HIGHER TAXES). TAKEN AS A GROUP, THE PARTIES SUPPORTING THIS COMPROMISE GAINED PARLIAMENTARY STRENGTH IN THE RECENT ELECENT ELECTION.

3. WE ARE SOMEWHAT MORE SANGUINE THAN THE SECRETARIAT ABOUT THE GOVERNMENTS ABILITY TO CONTROL INFLATION. SINCE 1974, THE GOVERNMENT HAS ALMOST HALVED THE INFLATION RATE. IF THE NEW INCOMES POLICY TAKES HOLD AS NOW ANTICIPATED, PRICE RISES MAY BE LESS THAN ANTICIPATED BY THE SECRETARIAT.

4. THE SECRETARIAT'S VIEW OF EXPORT PERFORMANCE SEEMS TO BE TOO PESSIMISTIC. A CENTRAL BANK GOVENOR RECENTLY GAVE US FIGURES THAT SHOWED BOTH AN UNEXPECTED STRENGTH AND A RISING TREND IN THE EXPORT SECTOR. (SPEAKING OF EXPORTS, IT SHOULD BE NOTED THAT THE SECRETARIAT PAPER APPARENTLY MAKES NO ASSUMPTIONS ABOUT INTERNATIONAL DEVELOPMENTS. ONE SHOULD KEEP IN MIND THAT IMPROVED GROWTH RATES IN THE MAJOR INDUSTRIAL COUNTRIES, NOTABLY GERMANY, COULD HAVE A BIG IMPACT ON DEVELOPMENTS HERE.)

5. AS REGARDS EMPLOYMENT, YOU SHOULD BE AWARE THAT THERE IS A PROPOSED GOVERNMENT PROGRAM TO GENERATE 20,000 JOBS. ALTHOUGH A PROGRAM OF THIS SIZE WILL HAVE ONLY A LIMITED EFFECT(THERE ARE AROUND 140,000 UNEMPLOYED), IT IS THE KIND OF SELECTIVE MANPOWER POLICY SUGGESTED IN YOUR CABLE.

6. WITH RESPECT TO INTEREST RATES, ONE SHOULD BEAR IN MIND THAT THE AUTHORITIES WILL CONTINUE THE LONG-STANDING POLICY OF KEEPING LIMITED OFFICIAL USE

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THEM HIGH ENOUGH TO ENCOURAGE DANISH BUSINESSMEN TO BORROW ABROAD. THIS POLICY IS, OF COURSE, DIRECTLY LINKED WITH DANISH BALANCE OF PAYMENTS REALITIES.

7. THE QUESTIONS AND OBSERVATIONS YOU LIST IN THE FINAL PARAGRAPH OF REF A RELATE FOR THE MOST PART TO DENMAR'S CENTRAL PROBLEM, BALANCE OF PAYMENTS, AND ARE THEREFORE GOOD ONES TO MAKE. POINTS ON WHICH YOU COULD QUESTION THE DANES MORE CLOSELY ARE: (A) UNEMPLOYMENT - QUESTION THEM ON THE PROPOSED GOVERNMENT PROGRAM (SEE PARA 5 ABOVE) AND HOW THEY EVALUATE ITS PROSPECTS; (B) INFLATION - TRY TO DETERMINE IF THERE ARE IN FACT GROUNDS FOR ANTICIPATING BETTER PERFORMANCE THAN THAT FORSEEN BY THE SECRETARIAT; AND (C) EXPORT PERFORMANCE - ASK FOR A READING OF LATEST DEVELOPMENTS IN THIS SECTOR.

8. AS GENERAL BACKGROUND, IT MAY BE USEFUL TO REMEMBER THAT THE DANES ARE FULLY AWARE OF THE NATURE OF THEIR PROBLEMS AND THE POLICIES NEEDED TO MEET THEM. FURTHERMORE, THERE ARE SIGNS

(E.G., THE ELECTION RESULTS) OF INCREASING POLITICAL WILL TO DO
WHAT IS NECESSARY. THUS WHILE AN OECD REVIEW IS UNLIKELY TO
"TEACH" THEM ANYTHING, A FRIENDLY BUT FRANK EXPOSITION OF CURRENT
CIRCUMSTANCES SHOULD HELP THE GOVERNMENT CONVINCE ANY RELUCTANT
ELEMENTS OF THE NEED TO TAKE SOME SEVERE MEASURES
(E.G. WAGE RESTRAINT).
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